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E.O. 12958: DECL: 12/02/2018  
TAGS: [HO](#) [PINR](#) [ECON](#) [EFIN](#) [EINV](#) [ENRG](#)  
SUBJECT: (U) REQUEST FOR INFORMATION ON THE HONDURAN  
ECONOMIC CLIMATE (C-AL8-02551)

REF: A. SECSTATE 126009  
[1](#)B. TEGUCIGALPA 1042  
[1](#)C. TEGUCIGALPA 1009  
[1](#)D. TEGUCIGALPA 1006  
[1](#)E. TEGUCIGALPA 991  
[1](#)F. TEGUCIGALPA 963  
[1](#)G. TEGUCIGALPA 930  
[1](#)H. TEGUCIGALPA 920  
[1](#)I. TEGUCIGALPA 772  
[1](#)J. TEGUCIGALPA 526  
[1](#)K. 07 TEGUCIGALPA 1798  
[1](#)L. 07 TEGUCIGALPA 1647

Classified By: Amb. Hugo Llorens, e.o. 12958 reasons 1.4(b) and (d)

[1](#)1. (U) Summary: Following is Post's response to ref A request for information on Honduran Economic Climate. Answers are keyed to questions in incoming telegram. End Summary.

[1](#)A. (U) ENERGY SECTOR:

1) (C/NF) WHAT IS THE OPERATING AND FINANCIAL STATUS OF THE HONDURAN STATE ENERGY COMPANY ENEE? ARE THERE ANY BLACKOUTS/SHORTAGES ON THE HORIZON?

(C/NF) ENEE Director Rixi Moncada told us in late October that, despite recent increases in electricity rates and falling fuel oil prices, ENEE's financial condition remained "critical" (ref E). ENEE has paid off its arrears to private power providers, but the funds it was counting on for capital improvements (to reduce transmission losses, among other things) from concessionally financed Venezuelan fuel deliveries (Petrocaribe) have not materialized, and serious internal management problems (refs K, L) have not been addressed. Rolling blackouts have become increasingly common throughout Honduras over the past six months. Installed capacity is barely sufficient to meet peak demand, and demand continues to increase. The 250 MW of new coal-fired capacity for which contracts were recently approved (see below) will not likely become available for at least two years, assuming that financing can be found for the projects. The 100 MW of wind power that was recently authorized (ref H) will also take about two years to become operational. In the meantime, blackouts/shortages are likely.

2) (C/NF) WHAT IS THE STATUS OF NEGOTIATIONS FOR COAL POWERED ENERGY? WHICH INDIVIDUALS IN THE BUSINESS SECTOR AND GOVERNMENT WILL BENEFIT FROM THESE CONTRACTS, AND TO WHAT EXTENT?

(C/NF) The controversial contracts to generate 250 MW of electricity from coal (of which Honduras has none) were approved in October (ref E). The contracts, which were

criticized by the World Bank and by the Honduran Supreme Accounting Tribunal (TSC -- analogous to U.S. GAO) on a combination of economic, fiscal, environmental and procedural grounds, are expected to benefit the Larach, Canahuati and Rosenthal families in Honduras (ref J). We expect the contracts to benefit these interests to an extent similar to that which Freddy Nasser and the Kafie Brothers have benefited from similar "emergency" power purchase agreements concluded during the administration of President Carlos Roberto Reina (1994-1998). Nasser and the Kafies are reported to have billed the GOH more than USD 1.5 billion under those contracts between 2002 and 2007 (ref J).

3) (C/NF) GIVEN THE DIFFICULTIES IN THE RENEWABLE ENERGY SECTOR (LISTED IN VARIOUS REPORTS, INCLUDING REFTTEL), HOW RECEPTIVE WILL TEGUCIGALPA BE TOWARDS THE US-BRAZIL BIOFUELS INITIATIVE? DO WE HAVE ANY SPECIFIC INFORMATION REGARDING OTHER ENERGY PROJECTS THAT HAVE THE POSSIBILITY OF AFFECTING NEAR-TERM ENERGY SECURITY?

(C/NF) The GOH is extremely receptive to participating in the U.S.-Brazil biofuels initiative. There is already significant interest in the Honduran private sector in producing both cane ethanol and biodiesel from African palm, jatropha and other sources. Biofuels have been slow to develop in Honduras primarily because of lack of a regulatory framework for marketing them. A law was passed in late 2007 to encourage biofuels, but implementing regulations have not been published. An estimated 60 small renewable energy projects, with a cumulative generating capacity of about 124 MW, are currently awaiting GOH regulatory approval, in some cases for several years. ENEE and the Ministry of

Environment and Natural Resources (SERNA) are under public pressure to begin approving them, but private generators that currently supply power with fuel oil wield considerable influence within the Congress and the bureaucracy to obstruct approval of competing renewable projects. Discussions have been underway for years with Taiwan and others to construct a second large-scale hydroelectric facility -- Patuca III -- to accompany the El Cajon hydrodam, which provides about 30 percent of Honduras's electricity. Discussions on a similar project with Brazil stretch back decades. Honduras is negotiating with a number of international firms, including U.S. firms Tejas Oil and Gas and Rose Dome Energy, about concessions to explore for oil and gas both onshore and off-shore. Honduras currently has no oil or gas production.

1B. (U) MONETARY AND FISCAL POLICY AND FINANCIAL SECTOR:

1) (C/NF) WHAT IS THE NATURE OF FINANCE MINISTER REBECCA SANTOS'S RELATIONS WITH ZELAYA? HOW MUCH INFLUENCE DOES SHE WIELD?

(C/NF) Santos, a technocrat, has never been part of Zelaya's inner circle, but at times she has been able to influence his thinking on fiscal matters. Over the last year, however, our sources and our observations tell us her influence over the President has waned in terms of her overall influence on macroeconomic policy. However, Santos maintains primacy over fiscal policy, which Zelaya recognizes she has ably managed. We believe that Central Bank President Edwin Araque, whose views are both less orthodox and more malleable to political expediency, appears to currently have more influence within the GOH. However, President Zelaya recognizes that Santos retains the credibility of the international financial community and that is the source of her strength.

2) (C/NF) WHAT IS THE NATURE OF CENTRAL BANK PRESIDENT ARAQUE'S RELATIONS WITH ZELAYA? HOW MUCH INFLUENCE DOES HE WIELD?

(C/NF) Araque, from what we have been able to observe, has become Zelaya's principal macroeconomic adviser -- or rather executor of the President's policy preferences -- within the cabinet. He is prepared to do the President's political bidding, far less prone than his predecessor Gabriela Nunez to assert Central Bank independence and reluctant to present

Zelaya with unpleasant policy choices (for example, on the exchange rate, where he does not appear willing to counsel the President on the possible negative repercussions of refusing to deviate from the current dollar peg).

3) (C/NF) WHO DOES ZELAYA RELY ON MOST FOR ECONOMIC ADVICE?

(C/NF) Zelaya listens to an eclectic mix of voices on economic matters. Within his political inner circle, Presidential Legal Adviser Milton Jimenez, Liberal Party President Patricia Rodas and Minister of the Presidency Enrique Flores Lanza, none of whom is an economist or has substantial business experience, all influence Zelaya's thinking on political-economic matters. Jimenez and Rodas hold populist/Chavista views on economic matters, are suspicious of U.S. motives and disdainful of private enterprise. Flores Lanza is more moderate in his public pronouncements and comments to us but has been associated with numerous statist schemes, such as the attempt to create a state fuel-import monopoly. On energy matters, Zelaya listens to Honduran businessman/writer Moises Starkman and U.S.-citizen consultant Robert Meyeringh, although it appears Meyeringh has lost the President's confidence over the past six months. Starkman, who holds more mainstream economic views, also influences Zelaya on more general economic and business matters. Of the traditional Honduran economic/financial elite, magnate Jaime Rosenthal and his son Yani have the most influence over Zelaya. Yani Rosenthal was Minister of the Presidency during the first two years of Zelaya's Presidency. Jaime Rosenthal, in addition to controlling the media outlets that are most sympathetic to and supportive of Zelaya, is a major bankroller of Zelaya's Liberal Party and hammered together the electoral alliance among Zelaya, President of Congress Roberto Micheletti and Yani Rosenthal, who stood for President of Congress on Micheletti's ticket in the November 30 primary elections. That alliance may dissolve in the wake of Micheletti's overwhelming defeat November 30 at the hands of Vice President Elvin Santos's stand-in, Mauricio Villeda, for the Liberal Party presidential nomination. The advice the Rosenthals give Zelaya can best be described as

self-interested, but tied to business realities. Zelaya also listens occasionally to Presidential Adviser Nelson Avila -- a gadfly, old-school heterodox economist who as recently as a year ago was advocating revaluing (not devaluing) the lempira and who has called the link between money supply growth and inflation a "neoliberal, ideological" concept.

4) (C/NF) HOW HEALTHY IS THE HONDURAN FINANCIAL SECTOR? HOW HAS THE DOMESTIC CREDIT MARKET RESPONDED TO THE GLOBAL FINANCIAL CRISIS?

(C/NF) Standard and Poors recently graded Honduras a "B" for short-term financial stability (ref B). The rating agency judged that Honduras's debt-GDP ratio -- 30 percent -- and debt-service burden were low, thanks primarily to USD 4 billion in official debt forgiveness since 2005, and that long-term growth prospects were good. On the downside, macroeconomic policy is erratic, the Zelaya Administration is publicly committed to a fixed exchange rate and the economic base is weak (depending on exports of a handful of commodities, plus remittances and apparel processing), making the country vulnerable to external shocks. Net international reserves at the end of 2007 were sufficient to cover 3.9 months of imports. But reserves have declined in 2007 and were equal to just over 3 months of imports by early November. The financial sector is shallow and the market for government debt is thin. In part because of this (lack of deep integration with international credit markets), the Honduran financial sector has not suffered a significant impact yet from the global financial crisis. However, signs of stress were beginning to appear in November, and Honduras could suffer significantly in 2009 if the U.S. recession persists/deepens (ref D). The IMF has been concerned for more than a year that domestic credit in Honduras has been growing at an unsustainable rate -- more than 30 percent in

2007 -- mostly credit card debt and construction loans. Although credit growth has slowed substantially in 2008, it is still far outpacing the growth in deposits (ref C). The IMF is therefore recommending continued monetary restraint, despite growing fears of a contagion from the global credit crunch. Nonetheless, the Central Bank in late November, under pressure from Honduran banks and the private sector, lowered reserve requirements substantially for banks with lempira-denominated deposits. Honduras has moved from a period of easy credit, high growth and higher inflation of six months ago to a current situation characterized by lower exports, growth and inflation and a relative scarcity of credit.

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